FINANCING WITH WAR SAVINGS CERTIFICATES

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The first factor in a financial problem, whether that problem has to be answered by a corporate manager or a minister of finance, is its size, and one of the most remarkable things about the present problem of borrowing by the government is that the size of the problem is utterly unknown. No one can tell within billions of dollars what the demand will be upon the treasury in the eight months that are left of this fiscal year.

Billions of dollars is a new phrase. Our whole debt was but a billion dollars when this war broke out. Few of us, if any, understand what a billion dollars is. When Congress got to appropriating in amounts reckoned by many billion dollars, I think that Congress itself almost lost track of what it meant. Appropriations, indeed, were so large that they were much misstated at the close of Congress. There was an official statement that the appropriations of this Congress had reached twenty-one billion, three hundred million. That amount was an error. The exact figures are not yet made up, but I was told at the Treasury recently that the present estimate is nineteen billion dollars, the former estimate having had some duplications.

Appropriating money has usually meant spending money. That does not necessarily follow when you get into sums approximating twenty billion dollars. Not only are we just learning the amount of the appropriations, but no one can tell within several billion dollars of how much of those appropriations will be used.

When war broke out we were as completely unprepared as it was possible for a nation of this size to be. We started to prepare, to prepare in every way, to prepare for a long war. Men charged with the responsibility of preparing this thing or that went at it with energy, with enthusiasm, with a patriotic desire that the thing that they were responsible for should be fully prepared at as early a date as possible. The result of that has been that we have a situation in

which no perspective has been put upon the problem. Emphasis has been placed everywhere.

It follows that these huge sums asked for from Congress were patriotically granted by Congress—Congress could do little else. There is no use of fault finding with the amount of this total. There is no just ground for criticism, but it is a total so huge that it is almost beyond comprehension, and a total so uncertain when it comes to the actual demand for credit from the Treasury that the Secretary of the Treasury is facing a situation in which he cannot calculate, as I have said, by billions of dollars what the total demand upon him will be.

Now money does not fight a war. We can appropriate money. We can provide credit but that does not accomplish the result. It is current effort, it is man power, it is industrial capacity, it is goods and services. So no matter what we appropriate, no matter what the Treasury provides, the sum that will be spent will be measured by the goods and services that can be bought.

In my own opinion—and this is in no sense an official opinion or one representing the government—I do not believe that the total expenditures can reach by a very long mark the total appropriations. It is true that contracts have been made or are in process of being made, that will absorb, let us say, the total nineteen billion dollars, but no man can say when the goods that are being contracted for will be delivered. We are putting a pressure upon the industrial capacity of the country that is undoubtedly greater than it can meet. Up to the present time there has been no directing mind over this problem saying what is most necessary, what is absolutely essential and what can be deferred, measuring the industrial capacity of the people to see how the demand should be applied to our total industrial resources.

That is going to be necessary if we bring efficiency and democracy into harmony. At present there may be as great activity put upon providing proving grounds for a gun that will not be built in two years as there is in providing something that should be going into the next ship; and the ship will be the controlling factor of what we are able to do.

It does no good to call men from the draft, to build expensive camps for them, to provide them with arms, if we cannot transport them, if we cannot feed them in the field, if we cannot provide the

things that are necessary to an army. It is this necessity for perspective on the situation that is the most needed thing that I see in Washington and the thing that will determine what the financial problem of the government is to be.

But let us suppose that it is to be nineteen billion dollars within the fiscal year—and the figures would seem to indicate that that is it. The different departments declare that they can spend the amount of the appropriations up to that total. I doubt myself if they can, but that is the belief of the people who are responsible for the expenditure. With that statement in mind, the Secretary of the Treasury stated prior to the second liberty loan that it would be necessary to float fourteen billions of bonds this year. That statement was entirely warranted with the facts before him. I believe the result will be a very much smaller flotation. I think the situation can be so managed that a total of so huge an amount of bonds need not be presented to the investing public.

Now, on the hypothesis of nineteen billions, we would have raised two billions from the first liberty loan, which was sold in the last fiscal year but paid for in this. We would get a minimum of three billions from the second liberty loan. Happily, it will be considerably over that. The optimistic view is that we will get four billion dollars from taxation. That would leave ten billions from additional bonds.

With the almost religious fervor that has been manifested in the sale of these bonds it is entirely possible that that amount of bonds could be sold, but in my opinion that amount of bonds will not be necessary. I would rather make a forecast—and remember that it is on the most inadequate data, that it is entirely personal and subject not only to what can be spent but what may still be appropriated and spent during the fiscal year—but I can guess that we might work the situation somewhat this way: receiving from the first liberty loan, two billions; from taxation, four billions; from short-term treasury certificates, let us say a possible total of four billions; from the second liberty loan now sold, somewhere between three and four billions; from War Savings Certificates, of which I shall speak later, possibly a billion. Now, with those resources there would be left only the task of providing from future liberty loans four or five billions to make the total nineteen billions—four or five, depending on whether three or four are realized from the loan just closed.

I see no reason why there should not be a very large amount of financing done with the short-term treasury note. The government has become the great purchaser; the government is conducting a great part of the business of this country. These short-term treasury notes are in effect government commercial paper. They are entirely proper for a bank to hold and there is capacity in the banking situation to readily carry the total of four billions. It would require but a shade over 10 per cent of the resources of each bank invested in these short-term treasury warrants to make up a total of four billions.

I want to explain something of the War Savings Certificates. I want to take you into my confidence and tell you just what we are going to do later with this scheme of War Savings Certificates.

In the act authorizing the second liberty loan, Congress granted authority to the Secretary of the Treasury to issue two billion dollars of War Savings Certificates. The act declared that they should not run over five years and that it was unlawful for a person to hold more than a thousand dollars. In other respects the matter is left wholly to the discretion of the Secretary. He has done me the honor of appointing me chairman of the committee to work out the details and the flotation of these two billions of War Savings Certificates.

We have had the experience of England, which has been extremely successful, but in viewing that experience we have decided to depart materially from the English plan. The English plan made the maturity of each certificate five years from the date that the money was paid into the post office. The date of payment, therefore, had to be officially noted, and the dealing, therefore, had to be entirely with the post office.

I desired to evolve a plan whereby people would not be confined to dealing with the post office, whereby there would be the greatest facilities for offering these securities for sale. It was necessary to have either a fixed maturity and a changing price or a changeable maturity and a fixed price. We chose the fixed maturity and the obligation of the United States will be issued as of January 2, 1918, to mature January 2, 1923. It will be in the form of a large stamp, printed in green, executed by the Bureau of Printing and Engraving. That stamp will sell in the month of January at four dollars and twelve cents. Four dollars and twelve cents at four per

cent, at compound interest, compounded quarterly, would amount to five dollars at the end of five years.

When a purchaser buys his first stamp he will be given a certificate on which there are spaces for attaching twenty of these stamps. When the purchaser buys his first stamp and attaches it to the certificate his name is written with his address and street address. He then has all the rights in respect to one stamp that he would have in respect to a certificate filled with stamps and there is the incentive to add more because of the vacant places. If he holds that until maturity, January 1, 1923, he can get at any post office, five dollars.

Now, it is the intention of the government that he should hold it to maturity, but if his exigencies are such that he needs the money before maturity, he can at any time, at any post office, on ten days' notice, receive what he paid, plus one cent a month in respect to each stamp. That is about 3 per cent—a little less than 3 per cent simple interest—so there is an advantage in his carrying it to maturity; but if he needs his money sooner he can get it at any post office.

Now, suppose he loses this. It will be contained in an envelope which will inform the finder that it is of value only to the owner, and the finder need do nothing but drop it into the nearest post office box without postage or further address. The post office will return it to the owner. Suppose a dishonest person finds it and undertakes to forge the name of the owner. If he does that successfully and the post office pays him, the owner has lost his money. If the document is burned up or otherwise disappears, the owner has lost his money.

The prospective purchaser may say, "That will not do. That is not satisfactory. I want greater safety." Very well, the government offers greater safety. If the owner chooses to go to a post office and have this registered, the stamps that he has attached to it are cancelled; if he will then go, whenever he attaches an additional stamp, and have that registered, he is then in a position where, if it is stolen, lost or destroyed, it is nothing more than a pass book and the post office will pay to the rightful owner, whether he produces his certificate or not.

For the purpose of accumulating four dollars in small amounts, the government will issue a small stamp, the size of a postage stamp. It is called a thrift stamp, costs twenty-five cents and there is a thrift card given upon which there are places for sixteen of these stamps.

When that is filled, it can be exchanged, with twelve cents or thirteen cents or whatever the price in the month of the exchange may be, for one of the other stamps that bear interest. These thrift stamps bear no interest.

Now we hope to raise two billion dollars with these small obligations. But that is the smallest thing that we hope to do with this scheme. We hope to impress thrift upon this people and we hope to carry over the idea that this country cannot produce twenty billion dollars of goods for the government unless people will be economical, unless they will refuse to employ, on unnecessary work making unnecessary things, the labor which the government needs upon the things that it requires for the war. That is the great lesson that we want to impress and the great good that I see that will flow from this War Savings Certificate plan.

And it is a lesson that must be learned not alone by the people who can save only in small amounts, but by everyone of us, and most of all by the business man who wants business as usual. It is impossible and utterly undesirable that we have business as usual. It is necessary that the whole available man power of this country be used for the purposes of the government; and the man is unpatriotic, no matter how much money he has in his pocket, who will employ labor to do an unnecessary thing and thereby compete with the government for labor.

I do not take a pessimistic view in the least in regard to the future of government finance. The demands that are to be made upon the Treasury are huge beyond anything that we have ever known. To illustrate how great they are, every expenditure that this government had made from 1791 to the beginning of this present year, through the War of 1812, through the Mexican War, through the great Civil War, through the Spanish War—every expenditure of every kind footed a little over twenty-six billions; and we are preparing to spend nineteen billions in one year! That measures somewhat the size of the task with which we are engaged.

But that expenditure is not all of the unproductive type. We are going to loan seven billion dollars of that nineteen to our foreign allies. We are going to spend considerably over a billion in the creation of a merchant marine. There are a great many expenditures that are of more or less a permanent character, so that it is not all wasted, not all gone.

But whatever the amount that it is necessary to raise and I must admit the difference is very wide between what the figures taken from one source or another might indicate—but whatever that amount is, there is capacity in the people to raise it. The first liberty loan, two billions in extent, was taken by the people, not by the banks. It was all absorbed within a very few weeks so that there was practically none left either in the investment account or in collateral in banks—the most amazing exhibition of financial strength. When the total of this last loan has been announced, we will know that that total will be another amazing exhibition.

The judgments of the Treasury in regard to the type of bonds, in regard to the amount, the form of offering, etc., have been proven to be wise. They were at variance at times with the advice of experienced men, but the advice of experienced men was at variance one with another. Results, it seems to me, have very fully demonstrated the wisdom of the Secretary of the Treasury in the various decisions that he has made in regard to government finance up to the present time.

I have gone back into the Treasury after an absence of sixteen years and I want to bear just a word of testimony to the efficiency of that great business machine. It is one of the most efficient business organizations in this country. I believed that was so when I was in the Treasury nearly twenty years ago. When I go back there and find men still occupying the high positions that they occupied when I was there, or other young men that I brought there, because of their trained ability, now occupying places of importance, I know that the Treasury has not been raided.

The Treasury is still the efficient machine that the government ought to have in this great crisis. I believe that we can look on the leadership that we are to have through this crisis with satisfaction, and I believe that whatever turns out to be the size of the task, the people are competent to meet it and will meet it.